

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM**

Executive Summary

Applicant:	National Health Services Inc. ("NHSI") 277 East Front Street Buttonwillow, CA 93206 Kern County	Amount Requested: \$400,000	Date Requested: May 30, 2002
		Loan Term: 5 years	Resolution Number: HII-110
Project Site:	655 Central Hwy, Shafter, CA 93263		
Facility Type:	Community Clinic		
Uses of Loan Proceeds: Loan proceeds will be used to furnish the Shafter Medical and Dental Center that is currently under construction.			
Type of Issue:		HELP II Loan	
Prior Authority Borrower:		No	
Financial Overview: NHSI has posted strong operating results during our review period. NHSI's current financial position is very strong with sizeable net assets, excellent liquidity, and a strong current ratio. NHSI should be able to manage the debt comfortably.			
Sources of Revenues: (FYE 3/31/01)			
	<u>Amount</u>	<u>Percent</u>	
Net Patient Revenue	\$7,346,275	76%	
Grant Revenue	2,135,382	22%	
Other income	190,920	2 %	
Total	<u>\$9,672,577</u>	<u>100.00%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
Help II Loan	\$400,000	Purchase Equipment & Furnishings	\$458,275
Borrower Funds	<u>63,275</u>	Financing costs	<u>5,000</u>
Total Sources	<u>\$463,275</u>	Total Uses	<u>\$463,275</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 5 years to the National Health Services Inc., subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

THE HELP II PROGRAM

National Health Services, Inc. (NHSI)

May 30, 2002

Resolution Number: HII-110

PURPOSE OF FINANCING: Loan proceeds will be used to furnish the Shafter Medical and Dental Center that is currently under construction. NHSI expects to increase patient visits by 40% upon completion of the project.

NHSI received four Cedillo-Alarcon Community Clinic grants totaling \$988,760 to expand services in NHSI service areas. None of the grant funds are being used for the Shafter project.

Equipment **\$458,275**

Loan proceeds will be used to purchase equipment and furnishings for the Shafter Medical and Dental Center that is currently under construction and is scheduled to be completed by October 2002. Some of the items to be purchased include an x-ray machine, ultrasound, treadmill, EKG and a defibrillator.

Financing Costs **5,000**

Authority Closing Fee..... \$5,000

Total Uses of Funds **\$463,275**

Structure of Financing:

- 5 year loan term with 60 monthly payments of approximately \$7,187 (yearly payments of approximately \$86,244).
- Total interest payments of approximately \$31,248.
- Corporate gross revenue pledge.
- First lien on equipment with UCC-1.
- Anticipated loan to value equals 86%.

II. FINANCIAL STATEMENTS AND ANALYSIS:

NATIONAL HEALTH SERVICES, INC.

STATEMENT OF ACTIVITY (Unrestricted net assets)

	For Year Ending March 31			
	2002 (Unaudited)	2001	2000	1999
Revenue:				
Net patient revenue	\$ 8,951,772	\$ 7,346,275	\$ 7,158,665	\$ 5,765,220
Grant revenue	2,794,402	2,135,382	1,828,141	1,703,778
Other income	243,922	190,920	80,612	173,380
Net assets released from restriction	154,327	168,666	208,006	194,010
Total revenue	12,144,423	9,841,243	9,275,424	7,836,388
Expenses:				
Salary and benefits	6,848,909	5,611,485	5,357,050	4,643,922
Consultant/contractual services	784,663	566,015	617,834	458,837
Health care supplies	620,318	642,813	626,737	605,264
Office supplies	79,727	70,703	77,574	64,741
Forms and data processing	24,726	24,568	30,632	35,831
Uniforms	21,067	17,835	17,696	13,936
Housekeeping & maintenance	51,932	124,748	87,585	115,722
Telephone & utilities	343,422	303,033	311,698	260,088
Postage & freight	18,129	14,969	16,419	18,946
Travel and transportation	78,307	46,644	32,430	35,215
Licenses and dues	39,422	34,422	31,406	33,106
Insurance	57,915	51,653	59,649	95,765
Training & education	68,124	53,708	72,592	61,223
Rent/lease equipment	112,945	59,255	78,160	72,795
Meeting expense	13,268	10,594	10,568	10,097
Health education materials	30,663	35,327	46,957	34,066
Property taxes	19,526	7,752	13,793	12,438
Interest expense	251,291	234,125	219,705	214,694
Miscellaneous	3,360	1,349	4,924	494
Depreciation	493,599	415,686	424,704	311,950
Rent/lease building	-	-	-	36,001
Other	19,088	15,416	24,593	22,853
Bad debt write off	137,399	-	-	-
Total Expenses	10,117,800	8,342,100	8,162,706	7,157,984
Increase in unrestricted net assets	2,026,623	1,499,143	1,112,718	678,404
Unrestricted net assets, beginning of year	7,593,716	6,094,573	4,981,855	4,303,451
Unrestricted net assets, end of year	<u>\$ 9,620,339</u>	<u>\$ 7,593,716</u>	<u>\$ 6,094,573</u>	<u>\$ 4,981,855</u>

NATIONAL HEALTH SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

	As of March 31			
	2002 (Unaudited)	2001	2000	1999
ASSETS				
Cash and cash equivalents	\$ 8,513,505	\$ 2,796,176	\$ 1,857,875	\$ 1,315,279
Patient accounts receivable - net	1,368,287	924,092	913,327	734,161
Grants and contracts receivable	740,762	285,149	368,862	347,293
Inventory	252,585	242,058	196,204	193,919
Prepaid expenses	11,997	6,576	11,799	3,795
Other receivables	3,780	44,343	305,087	207,444
Deposits	28,383	-	-	3,378
Property and equipment - net	9,375,809	7,375,231	6,690,336	6,454,176
TOTAL ASSETS	\$ 20,295,108	\$ 11,673,625	\$ 10,343,490	\$ 9,259,445
LIABILITIES AND NET ASSETS				
Accounts payable	444,172	171,037	206,956	81,745
Accrued expenses	731,654	511,672	610,391	527,319
Capital lease obligation	97,203	92,288		18,580
Long-term debt	8,771,182	3,150,585	3,262,904	3,441,940
TOTAL LIABILITIES	10,044,211	3,925,582	4,080,251	4,069,584
NET ASSETS				
Unrestricted	9,620,340	7,593,716	6,094,573	4,981,855
Temporarily restricted	631,557	154,327	168,666	208,006
TOTAL NET ASSETS	10,251,897	7,748,043	6,263,239	5,189,861
TOTAL LIABILITIES AND NET ASSET	\$ 20,296,108	\$ 11,673,625	\$ 10,343,490	\$ 9,259,445

Financial Ratios:

	Proforma (a) FYE 2001	2001	2000	1999
Debt Service Coverage (x)	1.95	5.90	4.07	4.01
Debt/Unrestricted Net Assets (x)	1.22	0.42	0.56	0.73
Margin (%)		15.23%	12.00%	8.66%
Current Ratio (x)		5.55	4.47	4.47

(a) Recalculates 2001 audited results to include the impact of this proposed financing. (also includes the 2001 bond debt and payments.)

Financial Discussion:

NHSI has posted strong operating results during our review period.

NHSI has posted positive operating income over the past three fiscal years ranging from \$678,000 in 1999 to \$1.5 million in 2001, resulting in strong operating margins ranging from 9% to 15%, with the most recent fiscal year being the strongest. Operating profits have been supported by consistent revenue growth, specifically in net patient revenues and grant revenues.

NHSI's current financial position is very strong with sizeable net assets, excellent liquidity, and a strong current ratio. NHSI should be able to manage the debt comfortably.

NHSI has a solid financial position with net assets of over \$7.7 million, excellent liquidity with cash and cash equivalents of \$2.8 million, and a current ratio of 5.55x. The proforma debt service coverage of 1.95x indicates that NHSI should be able to manage the new debt.

In June 2001, NHSI completed a bond issue for \$7.5 million dollars. The proceeds from this financing are being used to construct two facilities, the Shafter Medical and Dental Center and the Wasco Skilled Nursing and Adult Daycare Center. Proceeds from the HELP II loan will be used to furnish and equip the Shafter Medical and Dental Center. Management estimates that net income will increase by \$2.1 million in 2004 to \$2.8 million in 2008 as a direct result of these two new facilities.

III. BACKGROUND:

NHSI is a nonprofit corporation which operates six sites in the western area of Kern County. The sites are in the communities of Buttonwillow, Lost Hills, Wasco, Taft, Delano and Shafter. All sites operate on a year-round basis, providing a full range of primary and preventive care and support services to the under served population, including migrant and seasonal farm workers, in each community and other surrounding areas.

Shafter Community Health Center opened July 22, 1998. Since 1978, the Shafter area was part of Buttonwillow Health Center service area and serves approximately 1,800 people at the Buttonwillow site and 2,500 people at the Wasco operation annually.

Licenses and Contracts:

NHSI operates six community clinics in Kern County and are licensed through the State Department of Health Services.

Service Area and Competition:

Shafter Community Health Center is the only Federally Qualified Health Clinic (FQHC) in Shafter and is a sole provider of discounted services for affordable health and dental care. There are two private medical providers who offer limited services and accept limited payer sources in comparison to Shafter Community Health Center.

UTILIZATION STATISTICS:

National Health Services, Inc. Utilization

Number of Encounters
Calendar year ending December 31

Services	2000	1999	1998	1997
Medicare	3,018	2,642	2,288	3,445
Medi-Cal	45,091	41,602	30,814	30,342
Child Health Dis. Prevention	3,157	3,093	2,707	4,088
Expanded Programs	18,583	11,738	10,078	10,532
Other Programs	8,474	13,246	16,205	14,113
Self-pay & Private Insurance	7,597	7,719	5,703	7,326
TOTALS	85,920	80,040	67,795	69,846

IV. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 03/31/01</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Citibank 2001 Bonds	\$7,500,000	\$0	*\$7,500,000
Notes/Lines of Credit	Varies	3,150,000	**1,303,649
Proposed:			
HELP II Loan, 2002			400,000
TOTAL DEBT		<u>\$3,150,000</u>	<u>\$9,203,649</u>

*Citibank 2001 bonds were issued 6/28/01.

**Paid down \$1.8 million with Citibank 2001 tax-exempt bond proceeds.

V. SECTION 15438.5 OF THE ACT:

With the HELP II loan, NHSI will be able to minimize the start up costs resulting in lower monthly expenses. As a result, NHSI will be able to lower its fees for the benefit of its patients and communities. NHSI, on a yearly basis reviews its service fees, applying any excess revenues over expenditures to continuously lower its fees.

VI. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a Help II Loan in an amount not to exceed \$400,000 for a term not to exceed 5 years to the National Health Services, Inc., subject to the standard HELP II loan provisions.